

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 EB-07 FRB-01

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 PA-02 PRS-01 USIA-15

NSC-05 SS-15 STR-04 CEA-01 /107 W

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R 031833Z JAN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6964

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING JANUARY 3

BEGIN SUMMARY: BURMAH OIL THIS WEEK JOINED THE RANKS OF
MAJOR BRITISH FIRMS REQUIRING GOVERNMENT ASSISTANCE IN
ORDER TO MAINTAIN VIABILITY. THE BANK OF ENGLAND HAS
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GUARANTEED \$650 MILLION OF BURMAH'S FOREIGN CURRENCY BOR-

ROWINGS WHICH HAD REACHED THE POINT OF TECHNICAL DEFAULT. BURMAH ALSO AGREED IN PRINCIPLE TO SURRENDER TO THE GOVERNMENT 51 PERCENT PUBLIC PARTICIPATION IN ITS TWO MAJOR NORTH SEA DISCOVERIES. THE BURMAH ANNOUNCEMENT DEALT AN ADDITIONAL BLOW TO THE ALREADY WEAK BRITISH STOCK MARKET AS PRICES FELL TO NEAR RECORD LOWS. STERLING ALSO CAME UNDER PRESSURE AS THE ANNOUNCEMENT TENDED TO FURTHER ERODE CONFIDENCE IN THE FUTURE OUTLOOK FOR THE POUND. THE PRICE OF GOLD REACHED A RECORD HIGH OF \$198.00 ON MONDAY (12/30) BUT FELL TO \$174.50 ON THURSDAY (1/2) AS THE EXPECTED LARGE DEMAND BY US CITIZENS FAILED TO MATERIALIZE. PRELIMINARY ESTIMATES INDICATE THAT PRIVATE HOUSING STARTS DURING 1974 WERE LESS THAN HALF THE 1973 TOTAL.

1. BURMAH OIL WAS, THIS WEEK, ADDED TO THE GROWING LIST OF MAJOR BRITISH FIRMS WHICH WILL RECEIVE GOVERNMENT SUPPORT IN ORDER TO AVOID FAILURE. BURMAH IS THIRD LARGEST BRITISH OIL COMPANY (FOLLOWING BP AND SHELL) AND IS HEAVILY INVOLVED IN THE DEVELOPMENT OF TWO OF THE MOST IMPORTANT NORTH SEA OIL FIELDS. BURMAH, FACING A CRITICAL SHORT-TERM LIQUIDITY SHORTAGE WAS IN TECHNICAL DEFAULT ON BORROWING AGREEMENTS RELATING TO ADVANCES OF \$650 MILLION, LARGELY FROM US BANKS. TO AVOID ACTUAL DEFAULT, THE BANK OF ENGLAND AGREED TO GUARANTEE THE \$650 MILLION FOREIGN CURRENCY BORROWINGS FOR A 12-MONTH PERIOD, DURING WHICH TIME BURMAH MUST UNDERGO A MAJOR ASSET REALIZATION PROGRAM TO RAISE FUNDS TO MEET THEIR COMMITMENTS. THIS COULD INVOLVE A SALE OF A PORTION OF BURMAH'S WORLD-WIDE ASSETS, INCLUDING THEIR INTEREST IN LOUISIANA AND GULF OF MEXICO OIL EXPLORATION PROJECTS AND A PORTION OF ITS NEW YORK BASED TANKER FLEET WHICH HAS SUFFERED MAJOR LOSSES DURING 1974. IN ADDITION, BURMAH AGREED IN PRINCIPLE TO SURRENDER TO THE GOVERNMENT 51 PERCENT PUBLIC PARTICIPATION IN ITS TWO MAJOR NORTH SEA DISCOVERIES. THIS IS THE FIRST SUCH AGREEMENT ANNOUNCED BETWEEN THE GOVERNMENT AND THOSE COMPANIES ENGAGED IN NORTH SEA EXPLORATION.

2. BOTH THE BRITISH STOCK MARKET AND FOREIGN EXCHANGE MARKETS REACTED ADVERSELY TO THE BURMAH ANNOUNCEMENT. THE FINANCIAL TIMES SHARE INDEX FELL 10.8 POINTS ON THURSDAY
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(1/2) TO 150.6 ONLY 0.6 POINTS ABOVE ITS 20-YEAR LOW. STERLING FELL 140 POINTS VIS-A-VIS THE DOLLAR TO CLOSE THURSDAY (1/2) AT \$2.3335 WITH THE TRADE-WEIGHTED DEPRECIATION WIDENING FROM TUESDAY'S (12/31) LEVEL OF 21.4 PERCENT TO 21.7 PERCENT.

3. THE PRICE OF GOLD FELL FROM MONDAY'S (12/30) PEAK OF \$198.00 TO \$174.50 ON THURSDAY (1/2) FOLLOWING THE QUOTE

FAILURE OF THE EXPECTED GOLD RUSH IN THE US TO MATERIALIZE AFTER THE END OF THE 41-YEAR-OLD BAN ON PRIVATE HOLDINGS UNQUOTE. DEALERS ATTRIBUTE THE FALL IN PRICE TO A LARGE VOLUME OF QUOTE STOP-LOSS SELLING UNQUOTE WHEN IT WAS RECOGNIZED THAT THE INITIAL US DEMAND WAS NOT AS GREAT AS HAD BEEN ANTICIPATED.

4. THE FINANCE HOUSES' BASE LENDING RATE WAS INCREASED FROM DECEMBER'S 12 PERCENT LEVEL TO 13 PERCENT. THE BASE RATE, WHICH WILL APPLY FOR THE WHOLE OF JANUARY, IS AUTOMATICALLY SET BY THE COST OF MONEY IN THE THREE-MONTH INTER-BANK MARKET AND RECENT INCREASES IN THE INTER-BANK INTEREST RATES MADE THE RISE IN THE BASE RATE A FOREGONE

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FM AMEMBASSY LONDON

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CONCLUSION.

5. ALTHOUGH FINAL FIGURES ARE NOT YET AVAILABLE, PRELIMINARY ESTIMATES INDICATE THAT PRIVATE HOUSING STARTS DURING 1974 WERE LESS THAN 110,000, ABOUT HALF THE 1973 TOTAL. BUILDERS THEMSELVES PREDICT THAT THE SLUMP WILL CONTINUE THROUGH 1975, POSSIBLY AT 1974 LEVELS OR WORSE UNLESS
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THERE ARE SUBSTANTIAL GOVERNMENT INCENTIVES OFFERED TO THE BUILDING INDUSTRY. ONE MAJOR HOPE IS THAT THE GOVERNMENT WILL OFFER ASSURANCE THAT THE SUPPLY OF MORTGAGE FUNDS WILL BE MAINTAINED AT A RELATIVELY HIGH LEVEL.

6. THE FORWARD DISCOUNT ON STERLING WIDENED DURING THE REPORTING PERIOD.

	12/24	1/2	CHANGE
1 MONTH	1.30	1.95	UP 0.65
3 MONTHS	4.00	5.15	UP 1.15
6 MONTHS	7.22	8.40	UP 1.18

(ALL FIGURES IN CENTS)

7. EURODOLLAR RATES REMAINED FAIRLY STABLE WITH SOME DECREASE IN THE VERY SHORT-TERM RATES.

	12/24	1/2	CHANGE
1 MONTH	10-1/4	9-13/16	DOWN 7/16
3 MONTHS	10-1/4	10-1/4	UNCHANGED
6 MONTHS	10-1/8	10-1/4	UP 1/8

8. LOCAL AUTHORITY DEPOSIT RATES SHOWED MIXED MOVEMENT BUT REMAINED RELATIVELY HIGH.

	12/24	1/2	CHANGE
1 MONTH	11-1/8	10-3/4	DOWN 3/8
3 MONTHS	13	13-1/8	UP 1/8
6 MONTHS	13-3/4	13-1/4	DOWN 1/2

9. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-1/2 PERCENT ON FRIDAY, JANUARY 3, 1975.

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